



Department of Defense Utilities Privatization Program Update

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Deputy Under Secretary of Defense
(Installations and Environment)

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Utilities and Energy Strategy

AT&L / Installations & Environment

**Infrastructure
modernization**



**Utilities
Privatization**

**Real energy savings
Real cost avoidance**



Investments

Flexibility



**Alternative
energy sources**



Imperatives for Privatizing Utilities

- **Utility ownership is not a core DoD function**
- **Missions must be properly supported**
- **Historically, DoD utilities are under funded**
- **DoD needs industry's best practices, innovations, financing and economies of scale**
- **Privatization is the preferred tool for providing utility service at industry standards!**



Defense Secretary Guidance

- **Privatize all utility systems, unless**
 - Security concerns preclude privatization
 - Cannot achieve economic benefit
 - o Understand lack of response
 - o Understand barriers to economic deals
- **Promote competition**
- **Apply consistent economic analysis**
 - Support sound decisions
- **Complete decisions by SEP 2005**



Improvements Since 2004

- **Air Force and Army using Defense Energy Support Center and centralized management**
- **Cost Accounting Standards waived for certain contracts**
- **General Deviation to Federal Acquisition Regulations (FAR) Part 31 for certain contracts**
- **Deviation to FAR Part 31 to allow interest and Federal Income Taxes related to CIAC in certain circumstances**
- **Resolved legal issues raised by DoN on termination liability and Fair Market Value**



Ongoing Issues

- **Services are planning to complete competitive evaluations on at least 90 percent of DoD utility systems by Sep 05**
 - Schedule should not prevent the conveyance of systems deemed to be economical
 - Many evaluations of utility system evaluations will still be pending
 - Competitive evaluations have been completed on many systems without an exemption discussions with potential providers are continuing
- **Open to enabling industry to use common business practices**
 - Minimal feedback on CAS waiver or FAR deviation
 - Further adjustments to policy are possible



Air Force Specific Funding Issues

- **The Air Force Utilities Privatization program slowed in FY05**
 - Higher priorities (Global War on Terrorism)
 - Still on track to award 6 additional systems by end of FY05
- **AF program resumes at previously planned pace in FY06 as funding sources are restored**
- **Significant funding challenge remains**
 - Utilities Conveyance actions are increasing the funding requirement for utility services



California Rule 2 Issue

- **Navy has raised an issue regarding use of Rule 2 filing to California PUC, Added Facilities Charge**
 - Navy believes some of the terms directly conflict with federal law and a remedy has not been forthcoming
 - Navy believes government's interests are not protected
- **Navy counsel is discussing with affected firms**

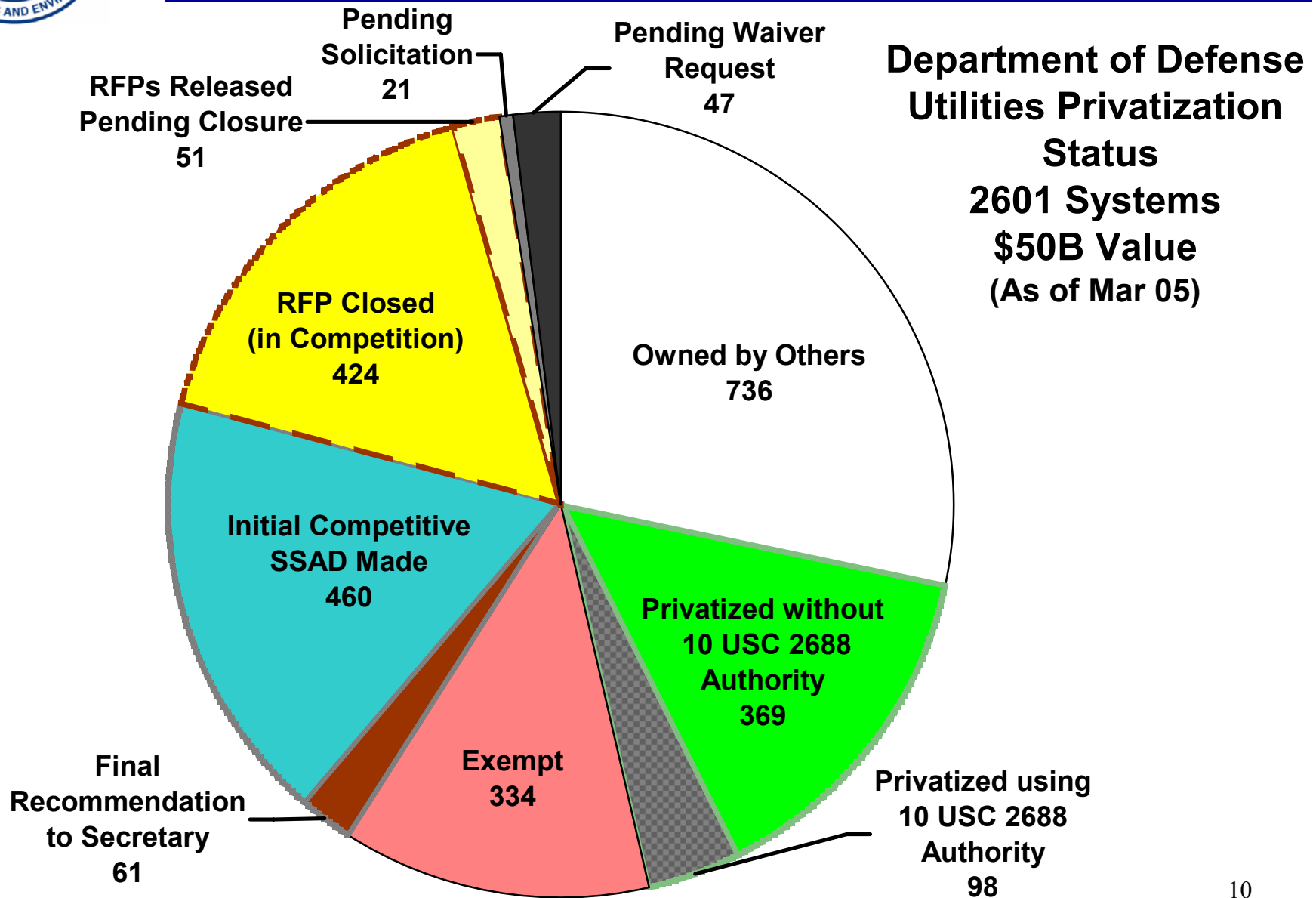


Potential Suspension

- **GAO issued report on DoD Utilities Privatization Program**
- **House of Representatives passed the National Defense Authorization Act for FY06, which included language that would suspend further conveyances until at least Oct 2006**
- **The Administration opposed the suspension**
- **Senate has not yet passed the Authorization Bill**
- **Current Senate bill language does not address utilities privatization**
- **Issue will be resolved in the House and Senate Conference**

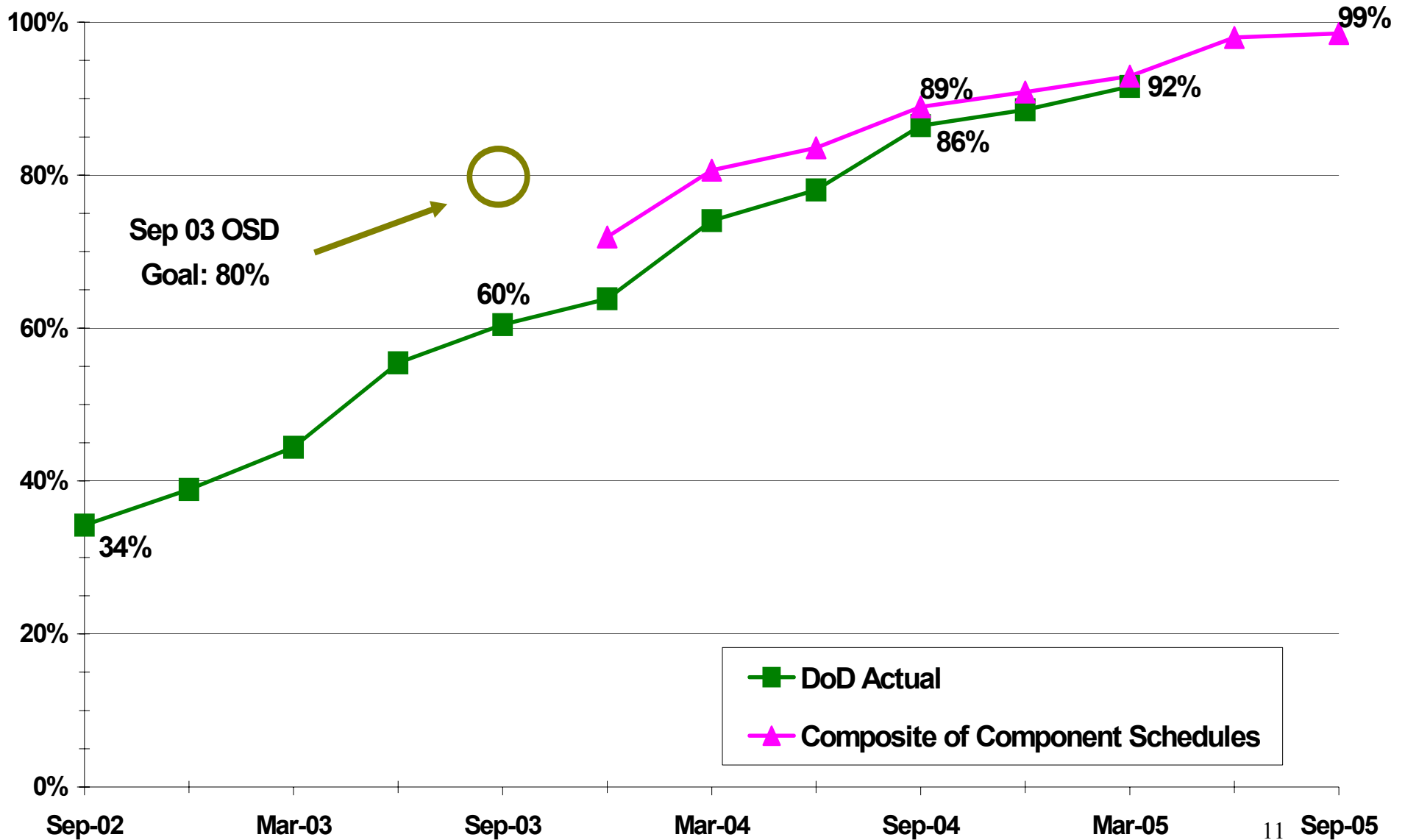


DoD Utilities Privatization Status



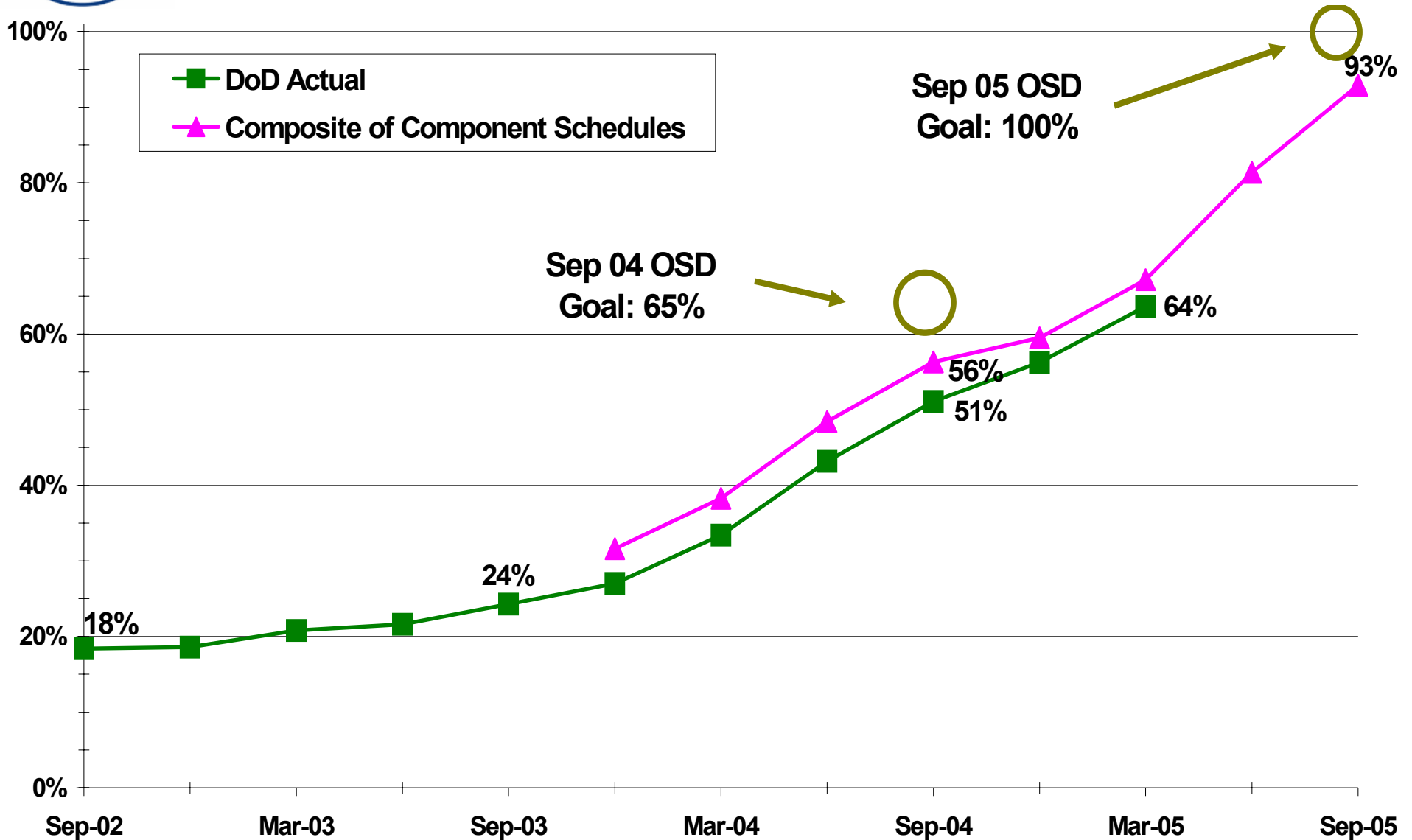


DoD System RFPs Closed or Exempt





Systems Through Competitive Process





Key Financing Considerations

- **Long term government contract**
 - Reliable accounts receivable stream
- **Very favorable rates available**
- **100 percent financing possible**
- **Available to meet capital investment needs**
- **Government poised to take advantage of private sector**





Contracting Offices

- **Army**
 - Defense Energy Support Center (DESC)
 - Army Contract Agency (ACA) offices
 - Corps of Engineers, Huntsville & other regions
- **Navy and Marine Corps**
 - Naval Facilities Engineering Command (NAVFAC)
 - o East Coast, West Coast & other regions
 - DESC
- **Air Force Civil Engineer Support Agency**
 - DESC
 - 21 Contracting Squadron, GSA
- **Defense Logistics Agency (DLA)**
 - DESC
 - Local contracting officers



Points of Contact

- **Office of Deputy Under Secretary of Defense (Installations and Environment)**
 - <http://www.acq.osd.mil/ie/irm/utilities/utilities.htm>
 - Captain Rick Marrs, CEC, USN (703) 571-9077
 - Commander Rob Tomiak, CEC, USN (703) 571-9074
- **Army Assistant Chief of Staff (Installation Management)**
 - <http://www.pts.army.mil/>
 - Bob Sperberg (703) 601-0367
- **Department of the Navy**
 - <https://energy.navy.mil/privatization/> General UP info and current RFP's
 - <http://www.esol.navfac.navy.mil/> Solicitations
 - Commander Navy Installations- LCDR Roland de Guzman (703) 601-1632
 - Marine Corps- David Heinrichs (703) 695-9781
 - Naval Facilities Engineering Command Bill Tayler (202) 685-9254
- **Air Force Office of the Civil Engineer (Readiness & Installation Support)**
 - <http://www.afcesa.af.mil/Directorate/CEO/Contracts/UtilPrivatization/default.htm>
 - Ken Miller (703) 604-4220
- **Defense Energy Support Center (DESC) Utility Privatization Branch**
 - <http://www.desc.dla.mil/>
 - Jacob Moser (703) 767-8135
- **Federal Business Opportunities**
<http://www.fedbizopps.gov/>



Summary

- **Each Service Secretary is committed**
- **Aggressively executing schedule, SEP 2005, but schedule should not hinder a privatization action**
- **Effective communication will ensure win-win partnerships**



DoD Utilities Privatization Website


<http://www.acq.osd.mil/ie/irm/utilities/utilities.htm>

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 Utilities and Energy > Utilities Privatization

Utilities Privatization

Utilities privatization is a method by which military installations can obtain safe, technologically current, and environmentally sound utility systems, at a relatively lower cost than they would under continued government ownership. In the privatization process, military installations shift from the role of owner-operators to that of smart utility service customers.

New Information	Economic Analysis Tool
DESC Contract Administration Guide	UPEAST 7.1-March 2005 UPEAST Endorsement ODUSD UPEAST Memo



Questions?

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www.acq.osd.mil/ie/irm/utilities/utilities.htm